

State of Tax, Legal & People

Supply chain - Challenges and opportunities

Tuesday 21 March 2023



pwc



Welcome

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Agenda

1. Introduction
2. Corporate Governance
3. Human rights
4. People
5. Corporate income tax & transfer pricing
6. Tax control framework



01

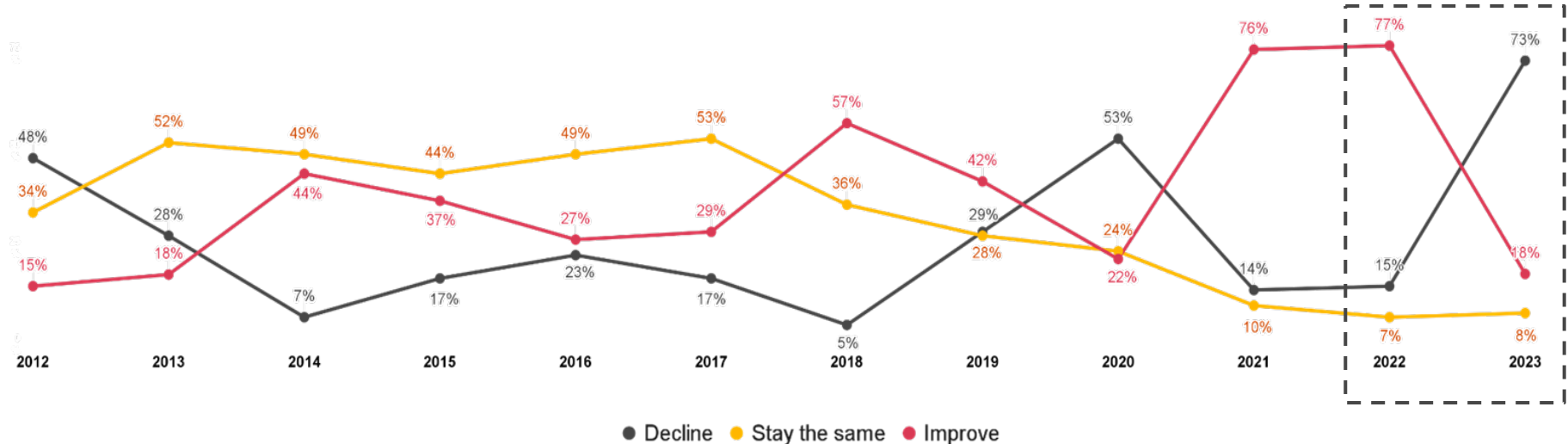
Introduction

CEO Survey



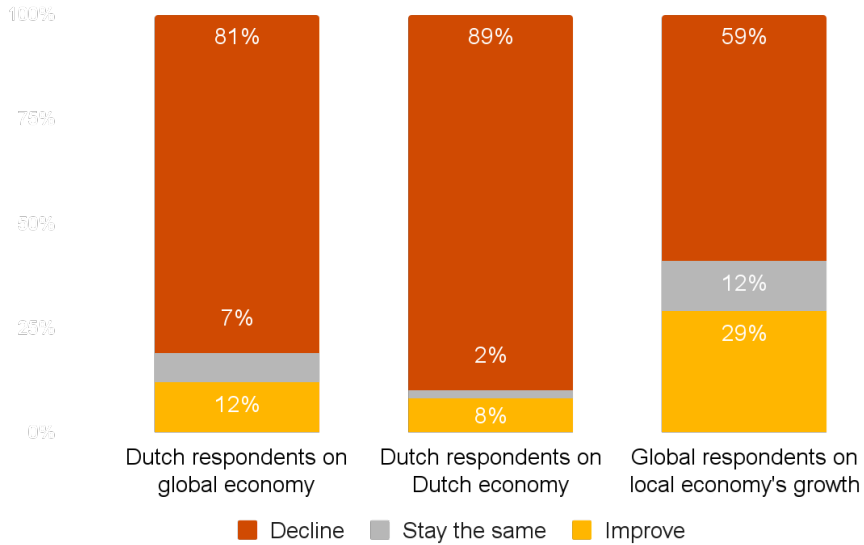
The fall from optimism to pessimism is the largest in a decade

How do you believe economic growth (i.e., gross domestic product) will change, if at all, over the next 12 months?



Dutch CEOs are more pessimistic than their global counterparts

How do you believe economic growth (i.e., gross domestic product) will change, if at all, over the next 12 months



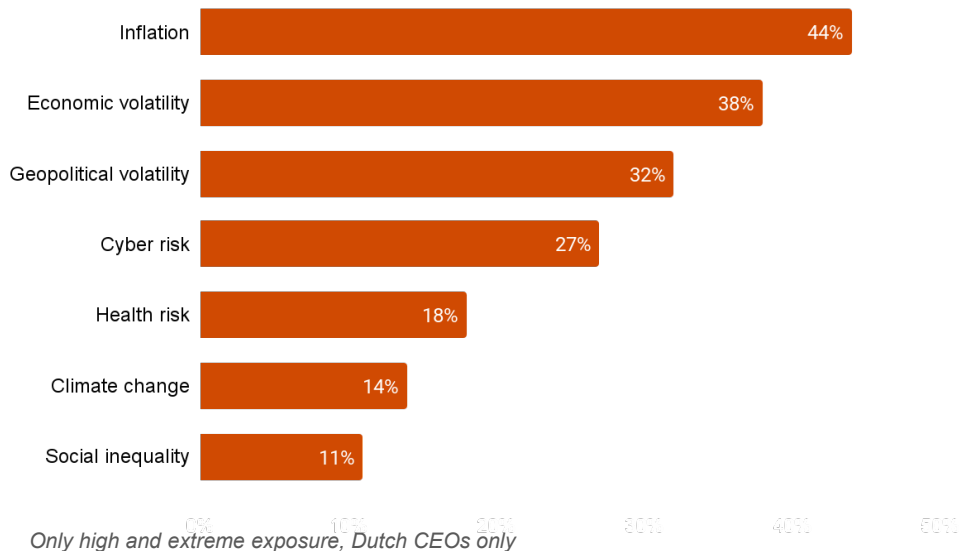
CEOs' optimism has fallen sharply from last year when the Covid-19 epidemic was largely behind us and there was no war in Ukraine.

Last year, 80 percent of CEOs expected the economy to grow. Now 80 percent is expecting a decline.

Signals a higher focus on short-term threats

Longer term priorities are slipping on the agenda

How exposed do you believe your company will be to the following key threats in the next 12 months?



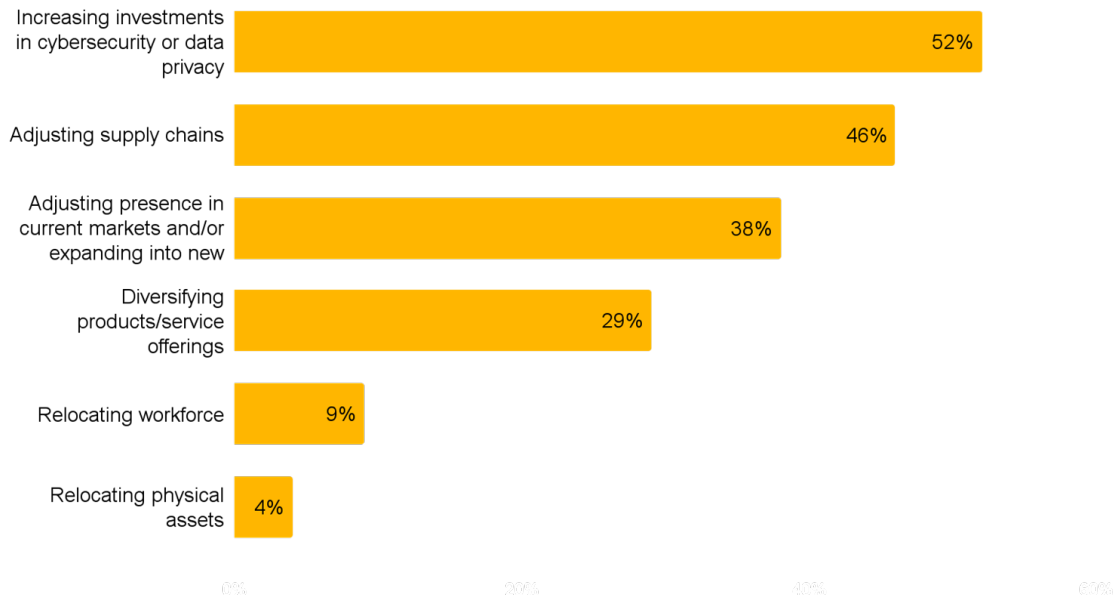
Following the immediate threats of inflation and economic volatility, **geopolitical risks** are top of mind of CEOs

Though climate change remains on the agenda, it has slipped to the 6th spot

Yet, CEOs note that climate risks will impact their cost profiles, supply chains and the safety of their physical assets

CEO's are expected to respond strongly to geopolitical risks

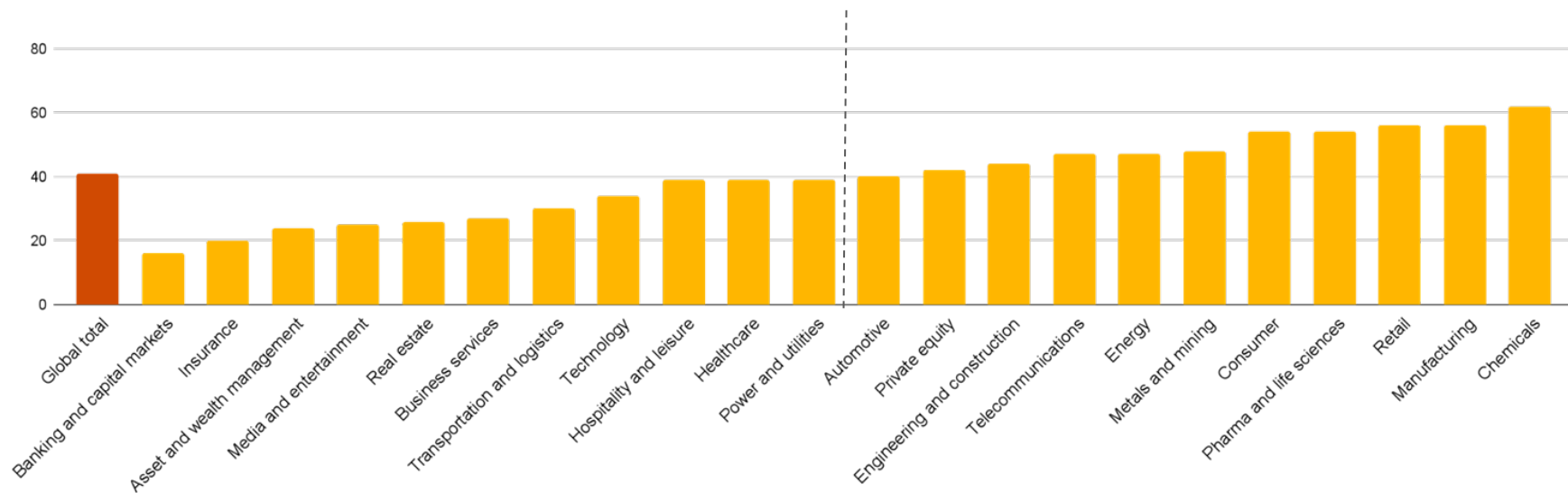
Which of the following actions, if any, is your company considering to mitigate against exposure to geopolitical conflict in the next 12 months?



Nearly half of all CEOs would increase investments in **cybersecurity and supply chains** in the next 12 months

Some industries will be more supply chain focused than others

Are you investing in adjusting the company's supply chain (including nearshoring/onshoring operations) in the next 12 months?

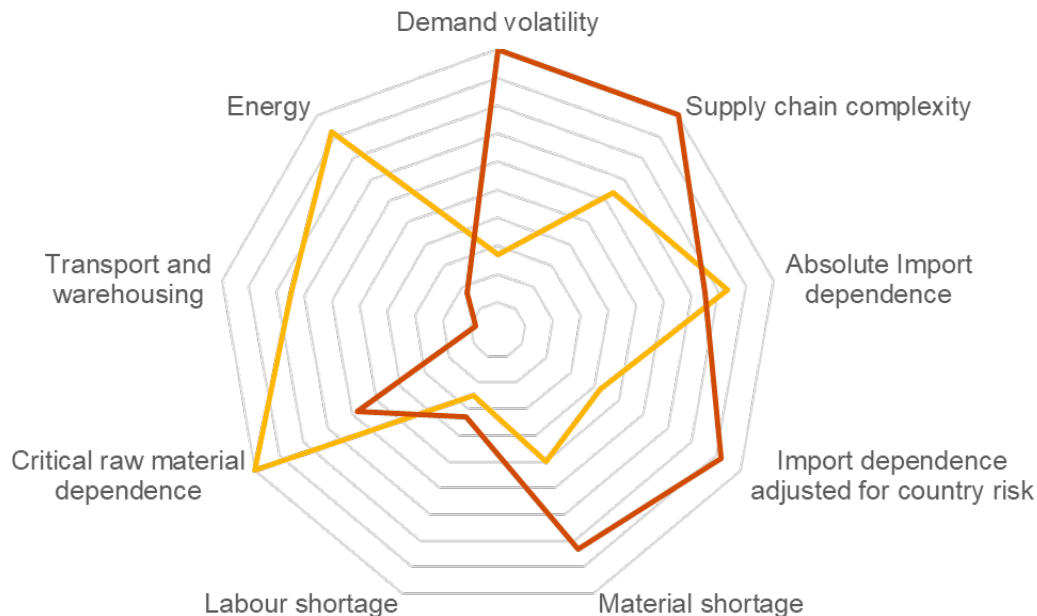


Supply chain investments will follow industry-specific issues

Some industries will focus more on **reducing supply chain complexity** (such as automotive and pharma)

Others will focus on **tackling material shortage** (computer products) or **labour shortage** (building materials, transport) more urgently

Publication: [Rebuilding supply chains](#)



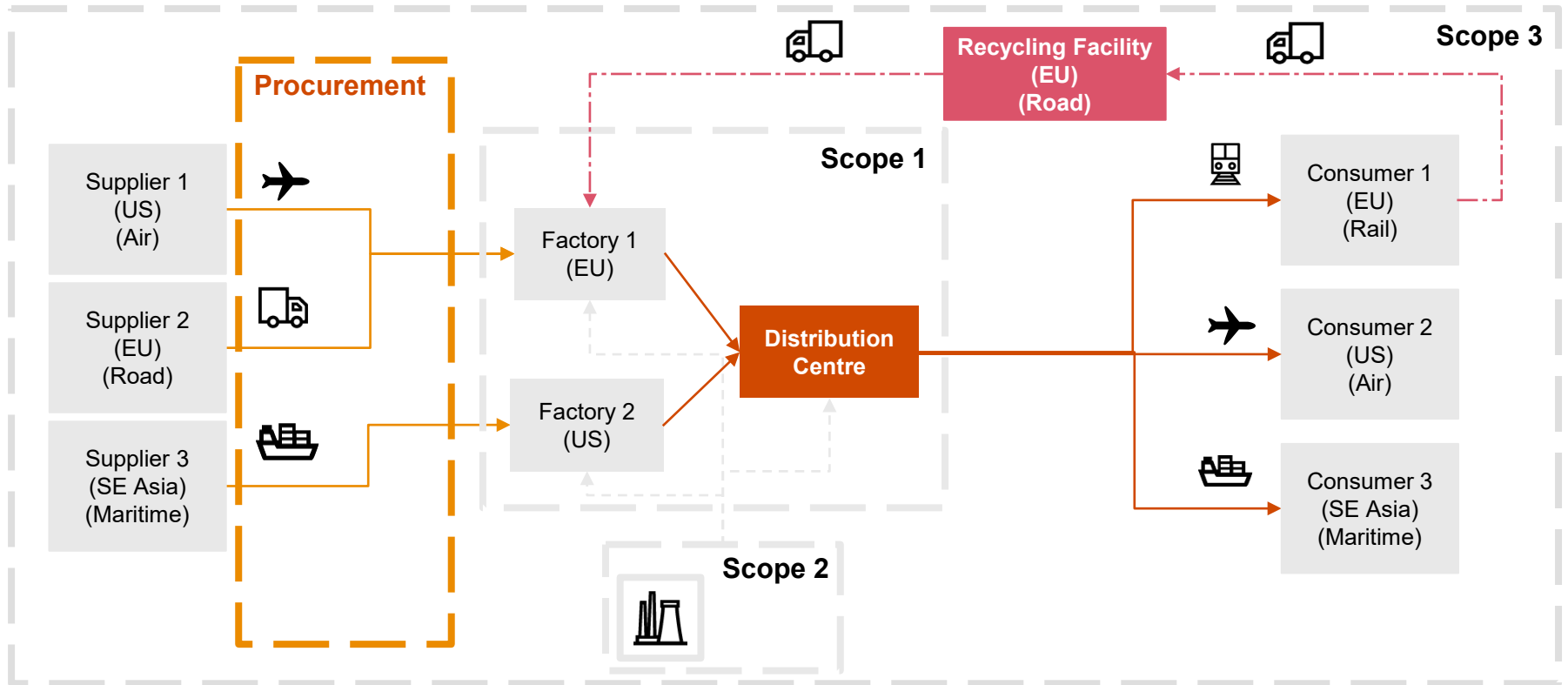
Supply chain

A supply chain encompasses everything from the delivery of source materials from the supplier to the manufacturer through to its eventual delivery to the end user, and disposal and recycling if taken care of by the company.

Sustainable Value Chain

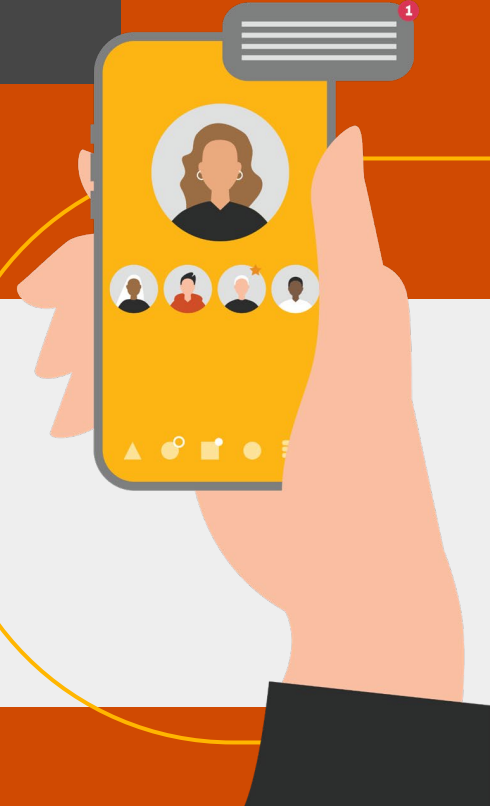


Sustainable supply chain



02

Corporate Governance



Governance and sustainable supply-chain

Corporate Governance Code 2022

- Board responsibility
- Sustainable long-term value creation

Shell case

- Obligation to reduce the CO2 emissions of the Shell group's activities



CSRD

What





- Disclosing non-financial information
- Impact on sustainability matters and how sustainability matters affect the company
- The undertaking's own operations and its value chain, including its products and services, its business relationships and its supply chain.

How

- European Sustainability Reporting Standards (ESRS)

Responsibility

- Collective responsibility

 Cross-cutting Standards	 Environment	 Social	 Governance
ESRS 1 <u>General requirements</u>	ESRS E1 <u>Climate change</u>	ESRS S1 <u>Own workforce</u>	ESRS G1 <u>Business Conduct</u>
ESRS 2 <u>General disclosures</u>	ESRS E2 <u>Pollution</u>	ESRS S2 <u>Workers in the value chain</u>	
	ESRS E3 <u>Water and marine resources</u>	ESRS S3 <u>Affected communities</u>	
	ESRS E4 <u>Biodiversity and ecosystems</u>	ESRS S4 <u>Consumer s and end-users</u>	
	ESRS E5 <u>Resource use and circular economy</u>		

What

- Based on the Corporate Sustainability Due Diligence directive (CS3D) and the OECD Guidelines for Multinational Enterprises 2011
- Rules for due diligence
- Duty of care

Status

- Comments on the proposal
- Reaction Dutch minister

2 jan • Interview

Boskalis-topman: 'Aanzien van Nederland op het wereldtoneel bladdert af'

16 feb

Minister Adriaansens 'sprak voor haar beurt' met felle kritiek op initiatiefwet



CS3D

Current EU legislative procedure of the CS3D

On **23 February 2022**, the European Commission adopted a proposal for a Directive on corporate sustainability due diligence.

On **1 December 2022** the Council of the European Union adopted its general approach on the CS3D as basis for discussions with the European Parliament.

The European Parliament is working on its position and is expected to be ready to negotiate with the Council in **March/April 2023**.

The vote in the European Parliament JURI Committee is scheduled to take place on **24th April**, ahead of the Plenary vote on **31st May**.

No official timeline communicated yet. CS3D needs to be implemented by Member States **2 years after entry into force**.



Director's duty under the CS3D

CS3D proposal
European Commission

Article 25

Take into account the consequences of their decisions for sustainability matters, including, where applicable, human rights, climate change and environmental consequences, including in the short, medium and long term.

Article 26

Directors are responsible for putting in place and overseeing the due diligence actions referred to in Article 4 and Article 5

General Approach
Council of the EU

Article 5 (3)

Member States shall ensure that companies referred to in Article 2(1) put in place and oversee actions listed in Article 4(1)

Compromise
Legal Affairs Committee
European Parliament

Article 25

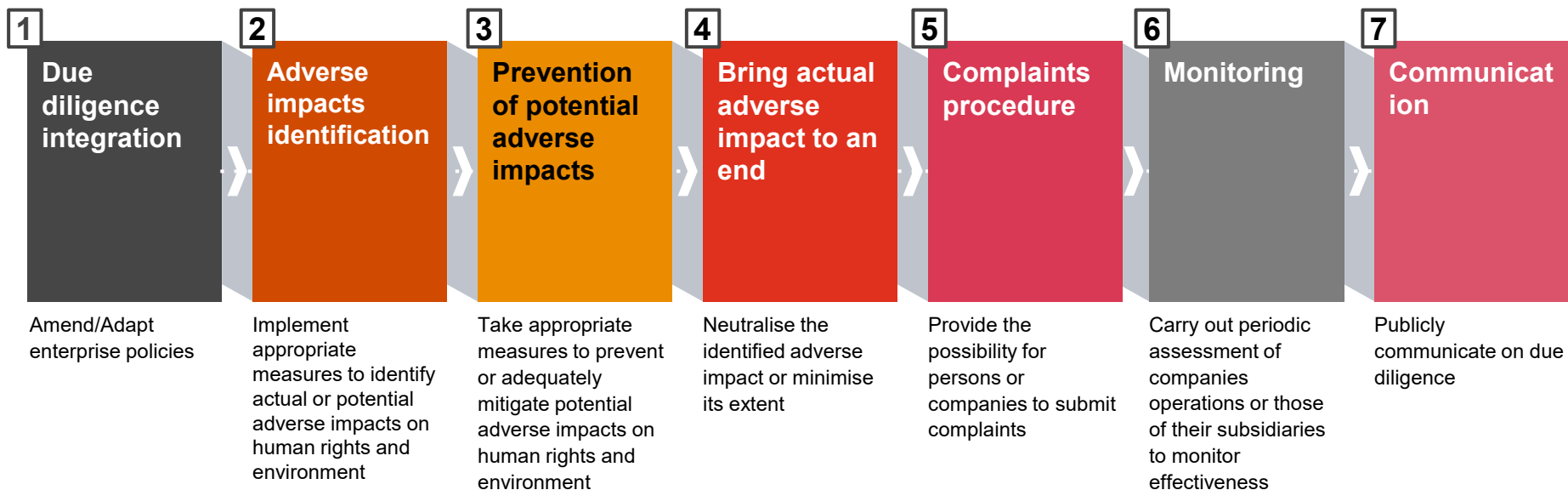
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Article 26

Directors are responsible for putting in place and overseeing the due diligence actions referred to in Article 4 and Article 5

CS3D requirements

This proposal applies to the company's own operations, their subsidiaries and their value chains (direct and indirect established business relationships). In general, companies need to:



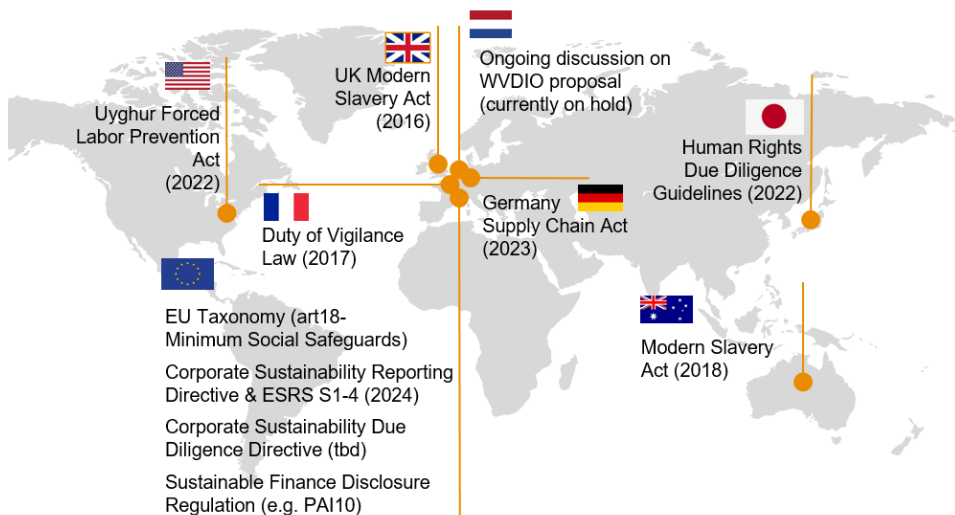
03

Human rights

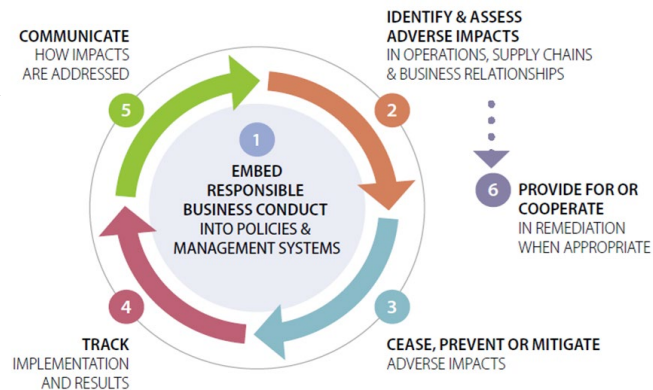


Human rights due diligence and disclosure becomes mandatory

Global developments as of March 2023

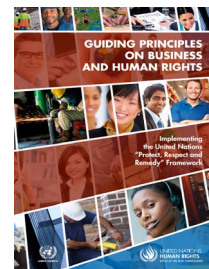


Underlying standards to many regulations come from OECD and UN



Source: OECD Due Diligence Guidance for Responsible Business Conduct

THREE PILLARS of the UN GUIDING PRINCIPLES



CSRD: are we moving towards robust human rights disclosure?

CSRD DR echo soft law standards on human rights, effectively shifting the discussion from “risk to business” to “risk to people”



Disclosure Requirement S2-2 – Processes for engaging with value chain workers about impacts

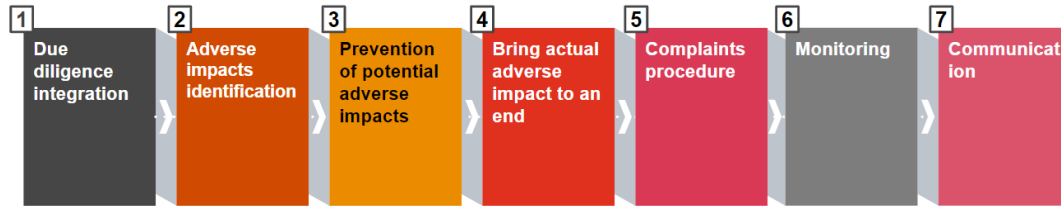
- 20. The undertaking shall disclose its general processes for engaging with value chain workers and their representatives about actual and potential material impacts on them.
- 21. The objective of this Disclosure Requirement is to enable an understanding of whether and how the undertaking engages, as part of its ongoing sustainability due diligence process, with value chain workers and their legitimate representatives, or with credible proxies, about material actual and potential positive and/or negative impacts that do or may affect them, and whether and how

- Focus on where impact takes place (right-holders lens)
- Engagement with right-holders or credible proxies
- Understand actual and potential impacts

Cross-cutting Standards	Environment	Social	Governance
ESRS 1 <u>General requirements</u>	ESRS E1 <u>Climate change</u>	ESRS S1 <u>Own workforce</u>	ESRS G1 <u>Business Conduct</u>
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	ESRS E5 <u>Resource use and circular economy</u>		

CS3D: towards a EU level playing field on HRDD?

CS3D has the potential to **harmonize the level playing field in Europe** when it comes to conducting human rights due diligence (HRDD). Guidance on “what good looks like” is well overdue, as companies try to meet HRDD requirements in various jurisdictions.



- Need for harmonization is key to **limit companies’ (and value chains) “diligence/ reporting fatigue”** on specific issues (e.g. forced labor, child labor etc)
- Level playing field on diligence and disclosure is necessary to increase the robustness of **human rights data**
- CS3D will also tackle E and G matters, increasingly **breaking the silos** between various areas of ESG practice and helping companies connect human rights to other areas of responsible business conduct

Current state of play

As CSRD kicks in, and CS3D is about to follow, what do companies already do on human rights DD and human rights disclosure?

What we see in conversation with 30+ companies in the last quarter

Most common business & human rights challenges:

- Company has a human rights policy that is aspirational and not actionable
- Human rights knowledge is 'siloed' away from core business
- Company thinks “risk to business” instead of “risk to people”
- Company performs 'red flag' due diligence instead of gauging supplier's/ investee's maturity on salient issues - for example by conducting social audits (called by many “a necessary evil”) or by simply asking suppliers to commit to code of conduct provisions
- Access to robust, credible and sufficient human rights information & data is limited
- Even when a UNGP-aligned human rights due diligence takes place, company struggles to follow up on findings



04

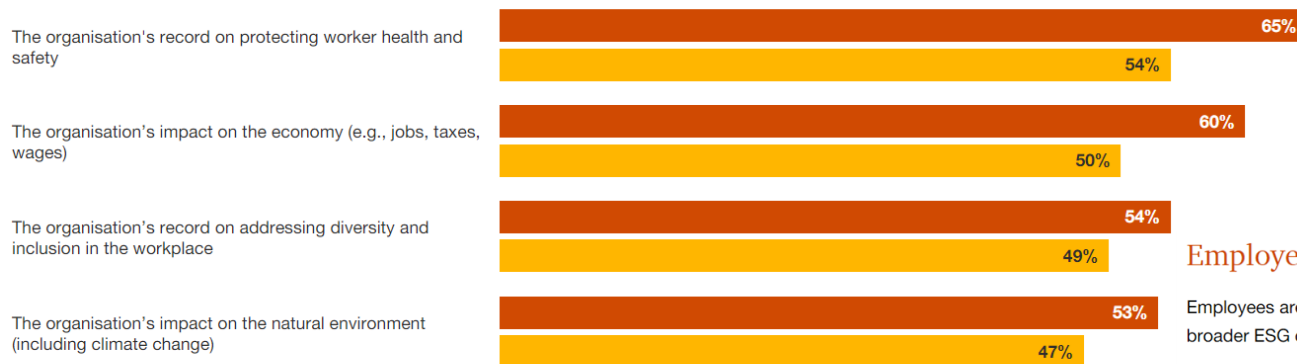
People



Safety & Social issues | Attraction

In company disclosures, safety and social issues outweigh climate change

■ % of respondents saying that transparency is extremely or very important in this area
■ % of respondents who are extremely or very confident their employer is transparent in this area



Source: PwC's 2022 Global Workforce Hopes and Fears Survey of 52,195 workers across 44 countries and territories

Employees want companies to take a stand

Employees are demanding that companies look beyond financial performance to broader ESG considerations—particularly regarding transparency.

The area in which employees say that transparency is most important is the company's record on protecting worker health and safety. This, no doubt, is related to some extent to the pandemic and the need to recreate working environments with public health in mind. Nonetheless, economic impact, workplace diversity and environmental impact (including climate) weren't far behind.

Reward Fairness | Retention

Meaning matters to employees

Most important factors when considering a change in work environment, % of respondents¹

■ Compensation ■ Meaning ■ Confidence/competence ■ Autonomy



¹ Respondents who selected extremely or very important.

Source: PwC's 2022 Global Workforce Hopes and Fears Survey of 52,195 workers across 44 countries and territories

Insights CEO survey | Netherlands

56%

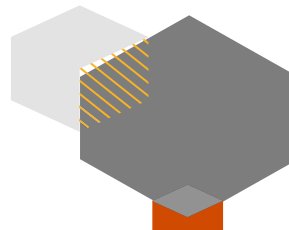
of CEOs think that **labour/skills shortages** will impact their **profitability**.

44%

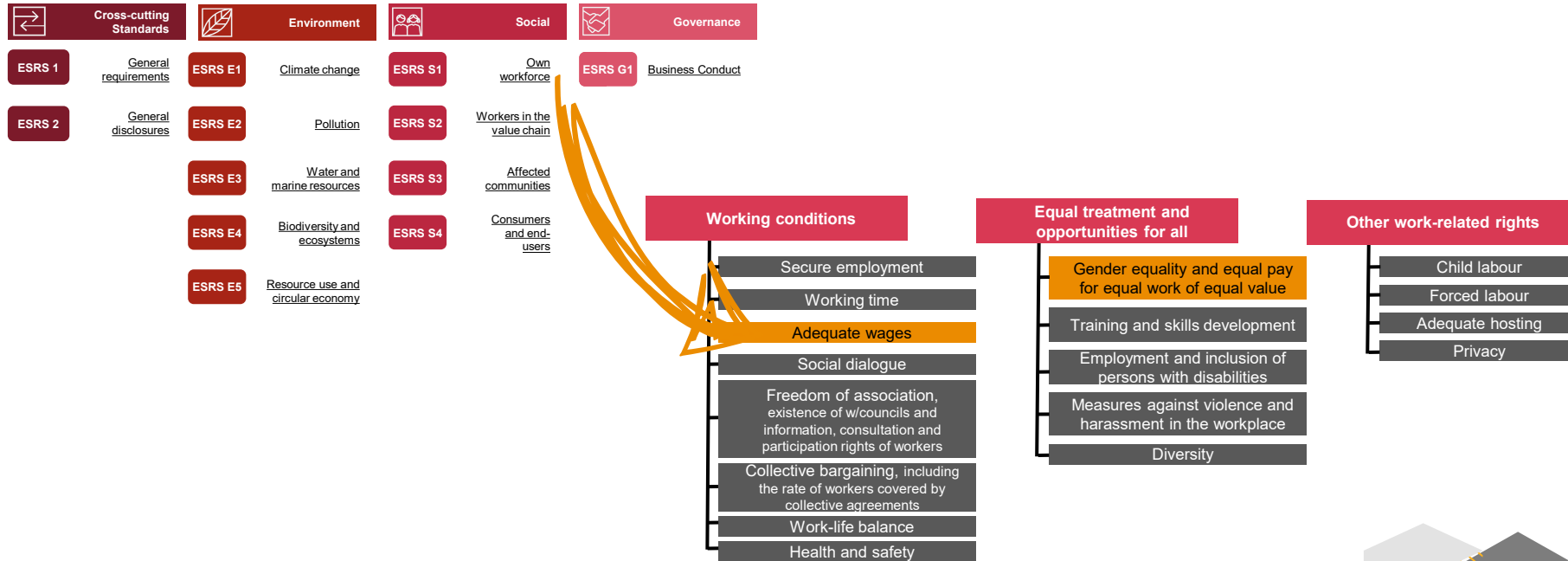
of CEOs view inflation as the **biggest serious threat** to their company

36%

of CEOs expect **attrition to increase**.

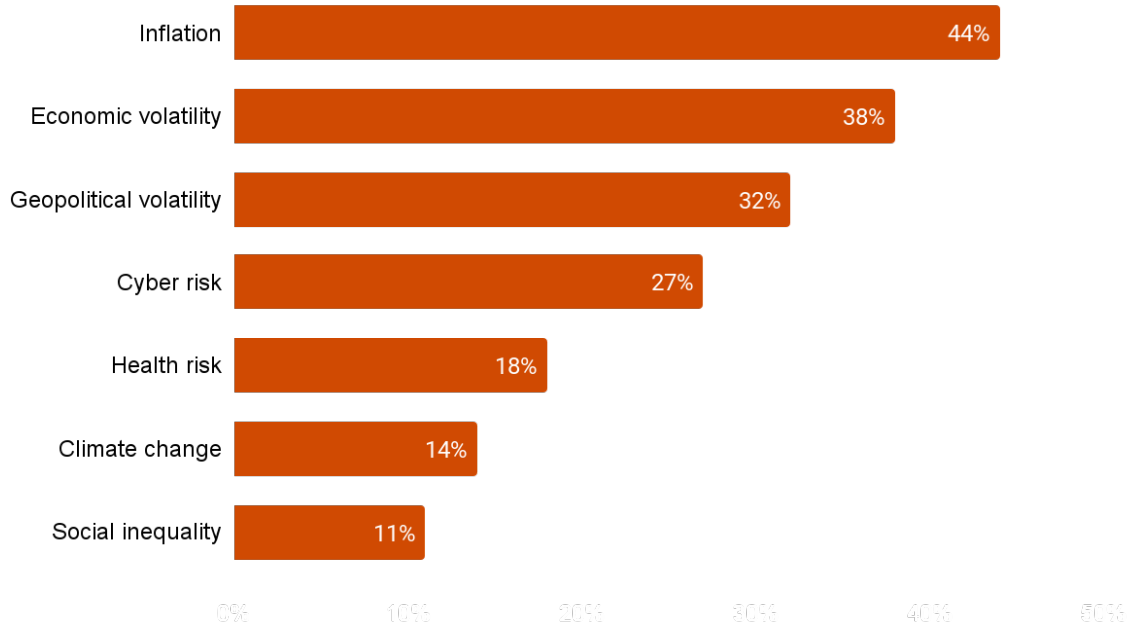


Reward Fairness | Disclosure

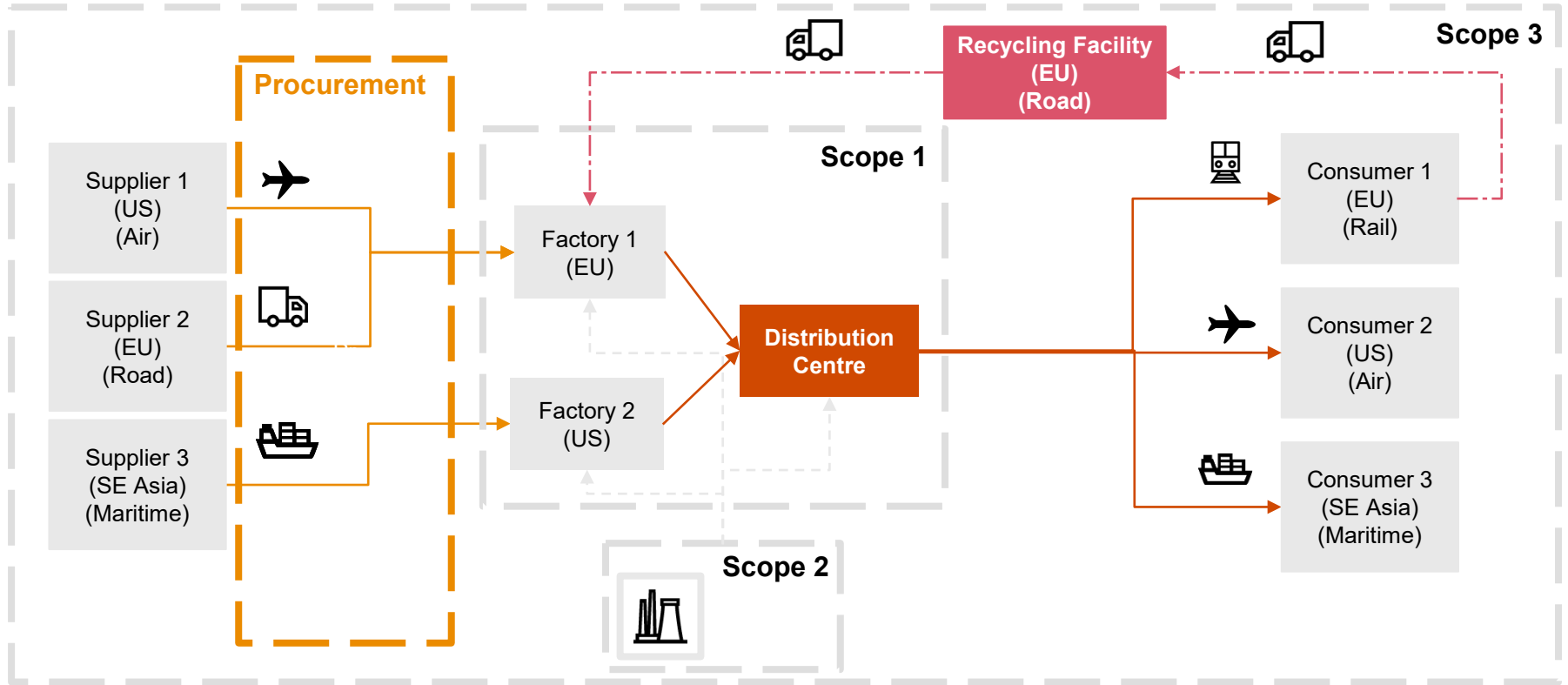


Reward impact | Inflation

How exposed do you believe your company will be to the following key threats in the next 12 months?



Supply chain



06

Tax Control Framework



Tax Governance - importance will increase

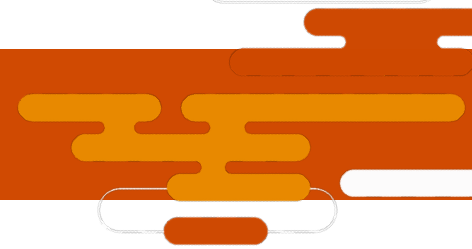
- Taxation is increasingly seen in the context of the business's corporate strategy and sustainability goals
- Tax governance allows companies to adopt a sustainable taxation policy
- Tax governance includes the formulation of a long-term tax strategy, clear roles and responsibilities and tax risk management
- **A Tax Control Framework** is a framework in which a company describes the tax related risks that are relevant for the company, the processes and controls that are in place that should mitigate these risks and defines a testing and monitoring plan to in the end enable a company to give assurance on its tax processes and controls.

Tax Control Framework - Who is responsible?

Process role	Legend	Description
Responsible	R	The person who performs the work to achieve the purpose of the process
Accountable	A	The person who is accountable for the whole process, from input to output
Consulted	C	The people who provide information with respect to the process and with whom there is a two-way communication line
Informed	I	The people who are kept informed about the process and with whom there is a one-way communication line

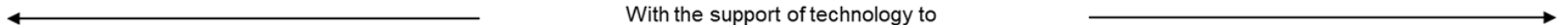


Tax Control Framework - RACI matrix



	Board & management	Accounting	Financial Control	Finance	HR	Payroll	IT	External advisors
Energy Taxes								
Preparation of overview Energy Tax obligations per country			A			R	C	
Booking Energy Tax transactions		R	A					
Preparing and booking invoices with Energy Taxes			A					
Preparation of Energy Taxes return			A					
Paying Energy Taxes	I		A					
Establishment of ERP system								
Maintaining and updating Energy Tax rates			A			R		
Maintain master data			A			R		

Tax Control Framework



With the support of technology to manage tax-relevant data

What is our view on tax?

Who is responsible for what?

How is taxation part of our processes?

What are our (main) tax risks and how do we manage them?

How do we monitor and test our (tax) processes, risks and controls?

How do we report and provide 'assurance' to our stakeholders?

Tax Control Framework - RCM

General		Risk Profile					Desired controls				
Tax type	Process	Subject	Risk description	Probability	Impact	Key risk	Type	Control description	Execute control	Control frequency	

- Update (existing) Tax Control Framework with sustainability related taxes such as Sugar Tax, Energy Tax, Plastic Packaging Tax
 - Processes
 - Controls
 - Testing and Monitoring / Data collection
- Determining who is responsible for tracking the emergence of new taxes



Tax Governance - importance will increase

- Update Tax Policy Statements with sustainability related taxes
- Total Tax Contribution Statements - Tax Transparency, also for sustainability related taxes
- Tax Assurance - limited assurance?

Three key actions to take away



Review existing supply chains



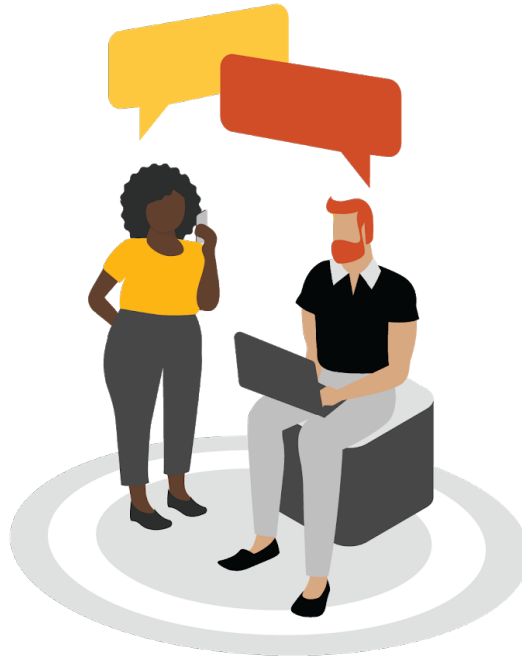
Wage cost simulations



Draft/update current documentation & frameworks



Questions?



Closing

- **Questions?** Please contact your PwC advisor or let us know in the evaluation of this webcast.
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- 'State of Tax' webcast series continues on [pwc.nl/evenementen](https://www.pwc.nl/evenementen)
- Please fill in the evaluation form

Evaluation

- How would you rate this webinar on a scale from 1 to 10?
- The content was relevant. (Totally agree/Agree/Neutral/Disagree/Totally agree)
- Do you have any suggestions and/or comments?
- Do you have specific questions and would you like us to contact you?

Contact



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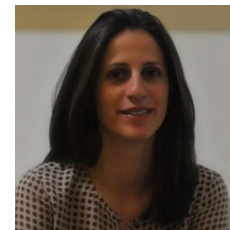
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